

Message Text

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ACTION EUR-25

INFO OCT-01 EA-11 ISO-00 EURE-00 SAJ-01 AID-20 CIAE-00

COME-00 EB-11 FRB-02 INR-10 NSAE-00 RSC-01 TRSE-00

XMB-07 OPIC-12 SPC-03 CIEP-02 LAB-06 SIL-01 OMB-01

NSC-07 SS-20 STR-08 CEA-02 L-03 H-03 PA-04 PRS-01

USIA-15 AGR-20 DOTE-00 USPS-02 INT-08 FEA-02 DRC-01

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P R 211626Z MAR 74

FM AMEMBASSY PARIS

TO SECSTATE WASHDC PRIORITY 7709

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY ROME

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

AMCONSUL BORDEAUX

AMCONSUL LYON

AMCONSUL MARSEILLE

AMCONSUL NICE

AMCONSUL STRASBOURG

UNCLAS SECTION 1 OF 2 PARIS 7067

E.O. 11652: N/A

TAGS: EFIN, FR

SUBJECT: FRANCE REINFORCES ANTI-INFLATION MEASURES

1. SUMMARY . - FRENCH COUNCIL OF MINISTERS ON MARCH 20
APPROVED NEW GROUP OF MEASURES DESIGNED TO COPE WITH
INFLATION. LIKE PREVIOUS SERIES LAST DECEMBER (PARIS
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31235), THEY ARE BASED ON PREMISE THAT EXCESS DEMAND

IS PROBLEM FOR FIRST HALF OF 1974. THUS, THEY PROVIDE FOR FURTHER SPEED-UP IN PERSONAL AND CORPORATE INCOME TAX COLLECTIONS, CONTINUATION OF CREDIT RESTRICTIONS AND EFFORTS TO MODERATE WAGE INCREASES THROUGH USE OF GOVT'S PRICE CONTROL POWERS. ALSO INCLUDED ARE MEASURES TO PROMOTE EXPORTS, PRIMARILY IN FIELD OF EXPORT CREDIT INSURANCE, AND ABOLITION OF DUAL EXCHANGE MARKET. DECISIONS WERE COMMUNICATED TO PUBLIC THROUGH PRESS CONFERENCE BY FINANCE MINISTER GISCARD D'ESTAING AND TELEVISION APPEARANCES LAST EVENING OF BOTH PRIME MINISTER MESSMER AND GISCARD. END SUMMARY.

2. IN PRESENTING MEASURES TO PUBLIC, PRIME MINISTER, AS WELL AS FINANCE MINISTER, SOUNDED THEME THAT 1974 WILL BE VERY DIFFICULT YEAR. GISCARD TOLD HIS PRESS CONFERENCE THAT FINANCE MINISTRY NOW ESTIMATED RATE OF GROWTH OF GROSS INTERNAL PRODUCT AT 3.8 PERCENT (COMPARED TO 4-4.5 PERCENT ESTIMATE MADE AT TURN OF YEAR AND 5.5 PERCENT ESTIMATE MADE LAST SEPTEMBER BEFORE OIL CRISIS). GIP PROJECTED TO RISE IN VALUE BY 14 PERCENT (WHICH IMPLIES PRICE DEFLATOR OF MORE THAN 10 PERCENTL. VALUE OF IMPORTS EXPECTED TO BE 31 PERCENT GREATER THIS YEAR THAN IN 1973. 1974 TRADE DEFICIT STILL PROJECTED AT 18 BILLION FRANCS. GISCARD HOPES THIS CAN BE REDUCED TO 10 BILLION FRANCS IN 1975, WITH EQUILIBRIUM RESTORED IN 1976. HE EMPHASIZED THAT COUNTRY LIKE FRANCE COULD NOT CONTINUE GOING INTO DEBT PERMANENTLY. HE ALSO INSISTED THAT MEASURES JUST TAKEN DID NOT CONSTITUTE ANY COMPREHENSIVE ECONOMIC "PLAN." THEY WERE CONTINUATION OF POLICIES LAID DOWN LAST DECEMBER (PARIS 31235) AND WOULD UNDOUBTEDLY BE COMPLEMENTED BY NEW SERIES OF MEASURES AROUND JULY 1.

3. FOLLOWING IS RUNDOWN OF MEASURES ANNOUNCED YESTERDAY

(A) PERSONAL INCOME TAX. - SECOND INSTALLEMENT
DUE MAY 15 ON PERSONAL INCOME TAXES PAYABLE IN 1974
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(CALCULATED ON 1973 INCOMES) INCREASED FROM NORMAL ONE-THIRD OF PREVIOUS YEAR'S TAXES TO 43 PERCENT FOR TAXPAYERS WHOSE 1973 TAXES WERE BETWEEN 2,000 AND 10,000 FRANCS, AND TO 50 PERCENT FOR THOSE ABOVE 10,000 FRANCS. (RECALL THAT FIRST INSTALLMENT, DUE FEB 15, HAD ALREADY BEEN RAISED TO 43 PERCENT FROM NORMAL ONE-THIRD, SEE PARIS 31235.)

(B) CORPORATE INCOME TAX. - LIKEWISE JUNE 15
INSTALLMENT ON CORPORATE INCOME TAXES RAISED FROM
25 TO 30 PERCENT OF 1973 BASE.

(C) VALUE ADDED TAX. - GOVT WILL REQUEST PARLIA-
MENT TO GRANT IT AUTHORITY TO REDUCE TVA RATES AT
APPROPRIATE MOMENT DURING 1974. FINANCE MINISTER
INDICATED THAT GIVEN HEAVY DEMAND PRESSURES NOW
INFLUENCING ECONOMY, ACTION UNDER THIS HEADING WOULD
BE DEFERRED UNTIL SECOND HALF OF YEAR. INTENTION
WOULD BE TO SIMPLIFY TVA RATE STRUCTURE, AND RESULT
WOULD BE TO REDUCE TVA COLLECTIONS BY MORE THAN
3 BILLION FRANCS PER YEAR.

(D) CREDIT. - OVER-ALL CEILLINGS ON BANK LENDING
FIXED FOR APRIL AT 12 PERCENT ABOVE LEVEL ONE YEAR
EARLIER, AND FOR MAY AND JUNE AT 13 PERCENT. WHILE
CEILINGS HAD BEEN FIXED AT 11 PERCENT IN RECENT
MONTHS, BANKS GREATLY EXCEEDED THEM IN DECEMBER AND
JANUARY (BY ABOUT 4 POINTS, ACCORDING TO FINANCE
MINISTER). THUS -- ASSUMING NEW LIMITS ARE RESPECTED --
ACTUAL EXPANSION OF BANK LENDING WOULD BE LESS THAN
IMPLIED BY HIGHER CEILINGS FOR SECOND QUARTER.

(E) INVESTMENTS. - EFFECTIVE JULY 1, CREDIT
NATIONAL (QUASI-PUBLIC INVESTMENT BANK) AND CREDIT
HOTELIER (WHICH PROVIDES INVESTMENT FINANCING TO
SMALL AND MEDIUM-SIZE FIRMS) WILL HAVE AT THEIR
DISPOSAL 4 BILLION FRANCS, EITHER COMING FROM EXTER-
NAL BORROWINGS OR TAKING FORM OF FRENCH BANK CREDITS,
TO STIMULATE PRODUCTIVE INVESTMENTS. REPORTEDLY
SUCH BANK LENDING WOULD BE OUTSIDE OF OVER-ALL
CEILINGS AND EXEMPTED FROM MANDATORY RESERVE REQUIRE-
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MENT OF 33 PERCENT ON BANK LOANS.

(F) PRICE POLICY. - FOR INDUSTRIAL PRICES,

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FM AMEMBASSY PARIS

TO SECSTATE WASHDC PRIORITY 7710

INFO AMEMBASSY BONN

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NEW CONTRACTS WILL BE VALID FOR SIX MONTHS (INSTEAD OF
FULL YEAR , AS PREVIOUSLY). FIRMS WILL BE PERMITTED
TO REFLECT FULLY IN THEIR SALES PRICES INCREASED RAW
MATERIALS COSTS, BUT NOT "INTERNAL" COSTS INCREASES.
THUS, FIRMS WILL BE EXPECTED TO HOLD DOWN WAGE
INCREASES (REPORTEDLY TO 1.5 OR 2 PERCENT OVER NEXT
FEW MONTHS), AND ANY INCREASES ABOVE ESTABLISHED NORMS
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WILL HAVE TO COME OUT OF PROFITS. RETAIL MARGINS
WILL CONTINUE TO BE STABILIZED IN RELATIVE VALUE,
BUT PRICE CONTROL AUTHORITIES WILL ATTEMPT TO ROLL
BACK BY 2 PERCENT AVERAGE MARGINS OF PRODUCTS -- SUCH

AS PLASTICS -- WHOSE PRICES HAVE RISEN STEEPLY IN RECENT DAYS.

(G) PRICES OF PUBLIC SERVICES. - RAILROAD RATES WILL BE INCREASED 7.5 PERCENT EFFECTIVE APRIL 1. PRICES OF OTHER PUBLIC SERVICES -- INCLUDING TELEPHONE, POSTAGE AND PARIS TRANSPORT SYSTEM -- WILL REMAIN AT PRESENT LEVELS.

(H) INCOMES. - GOVT WILL PLACE EMPHASIS ON PROTECTING LOW-INCOME GROUPS. PRIME MINISTER TOLD TELEVISION VIEWERS THAT IN 1974, BEST THAT COULD BE HOPED FOR WAS TO MAINTAIN PURCHASING POWER OF WAGES AND THAT IT WOULD BE ILLUSION TO THINK THERE COULD BE AN INCREASE IN PURCHASING POWER THIS YEAR.

(I) EXPORTS. - DETAILS OF MEASURES TO PROMOTE EXPORTS ARE TO BE MADE PUBLIC TODAY, MARCH 21. THEY ARE APPARENTLY TO BE CONCENTRATED IN FIELD OF EXPORT CREDIT INSURANCE, WHERE COFACE (FRENCH EXPORT CREDIT INSURANCE AGENCY) WOULD INCREASE ITS EXPOSURE, PARTICULARLY AS REGARDS CERTAIN COUNTRIES, SUCH AS PETROLEUM EXPORTERS, WHOSE BALANCE-OF-PAYMENTS OUTLOOK HAS BECOME MUCH BRIGHTER.

(J) ABOLITION OF DUAL EXCHANGE MARKET (PARIS 7005). - GISCARD EXPLAINED TO HIS PRESS CONFERENCE THAT WITH TRADE ACCOUNT IN HEAVY DEFICIT, COMMERCIAL FRANC WOULD PROBABLY HAVE BEEN UNDER DOWNWARD PRESSURE, WHILE FINANCIAL FRANCE WOULD PROBABLY HAVE BEEN SUBJECTED TO UPWARD PRESSURE AS RESULT OF INFLOW OF CAPITAL FROM EXTERNAL BORROWINGS. HE THUS PRESENTED ABOLITION OF DUAL RATE SYSTEM AS TECHNICAL MEASURE DESIGNED TO MATCH SUPPLY AND DEMAND ON SINGLE MARKET.

4. COMMENT. - IT IS CLEAR FROM THRUST OF MEASURES TAKEN THAT GOVT CONTINUES TO BELIEVE -- OR AT LEAST UNCLASSIFIED

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HOPE -- THAT INFLATIONARY CREST WILL COME DURING FIRST HALF OF 1974. THUS, PRINCIPAL ITEM WITH BITE IS FURTHER SPEED-UP OF PERSONAL AND CORPORATE INCOME TAX COLLECTIONS DURING CURRENT HALF YEAR. IN LIGHT OF LAST YEAR'S RATHER UNSATISFACTORY EXPERIENCE WITH VALUE-ADDED TAX REDUCTIONS AS ANTI-INFLATIONARY WEAPON, FURTHER USE OF THIS TECHNIQUE, A FAVORITE OF FINANCE MINISTER, HAS BEEN SHELVED UNTIL LATER IN YEAR. IT IS HOPED BY THEN DEMAND PRESSURES WILL HAVE ABATED, THEREBY MAKING TAX RELIEF A MORE APPROPRIATE STEP THAN IN PRESENT HIGHLY INFLATIONARY CLIMATE. WHETHER OR

NOT PROGRAM BRINGS ABOUT ANY APPRECIABLE MODERATION OF RAPID INCREASE IN MONEY WAGES WILL BE CRUCIAL IN DETERMINING ITS SUCCESS OR FAILURE IN DAMPENING THE PACE OF INFLATION. YET GOVT'S STANCE THAT IT WILL NOT BE POSSIBLE TO DO MORE IN 1974 THAN MAINTAIN PURCHASING POWER OF WAGES MAY WELL BE LEADING IT INTO TRIAL OF STRENGTH WITH LABOR THAT COULD UPSET THE WHOLE APPLE CART. ON EXTERNAL FRONT, IT IS HARD TO SEE HOW PRESENT GOVT POLICIES CAN RESTORE EQUILIBRIUM IN TRADE ACCOUNT BY FINANCE MINISTER'S TARGET DATE OF 1976. REUNIFICATION OF EXCHANGE MARKET IS TECHNICAL MEASURE, DESIGNED TO ADJUST TO SITUATION WHERE GOVT'S OBJECTIVE IS TO FINANCE HEAVY CURRENT ACCOUNT DEFICIT THROUGH LARGE-SCALE CAPITAL IMPORTS, RATHER THAN TO WARD OFF CAPITAL INFLOWS AND ISOLATE RATE FOR COMMERCIAL TRANSACTIONS FROM EFFECTS OF SUCH INFLOWS.
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